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Report Highlights:

MY 2003/04 sugar production is forecast at 5.18 million metric tons (MMT) raw value. Sugar production for MY 2002/03 was revised upward to 5.14 MMT. Domestic sugar consumption for MY 2003/04 is expected to increase slowly to 4.99 from 4.93 consumption of MY 2002/03. Sugar exports are expected to continue under the PITEX program, but are now reclassified under a new category in the PSD table. Data for consumption and trade, however, could change depending on the U.S.-Mexico NAFTA sugar negotiations.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

SUGAR PRODUCTION

Although the Mexican sugar industry has not yet set a sugar production estimate for MY 2003/04 (October/September), sugar production is forecast at 5.18 million metric tons (MMT) raw value. This forecast is based on the relatively good weather experienced during the growing season. However, production will also depend on timely maintenance for the sugar mills, credit and incentives to keep the business growing. Also, the government has been unable to define an overall policy for the industry since some issues pertaining to the expropriation of the sugar mills have not yet been resolved.

First, government compensation for the mills has not been paid to the previous owners, who maintain that the government has no plans of selling them. Government plans to reprivatize the 27 sugar mills in March 2003 might not be realized, due in part to the fact that several former sugar mill owners have filed court injunctions to stop this reprivatization. Furthermore, two sugar mills have won their court injunctions against the government, while 13 other mills are awaiting resolutions of their court injunctions. The government will have to wait for the final outcome of these court cases before it can go ahead with its plans to reprivatize the mills. The government believes that the mills have increased in value, due to better industry reorganization as a result of the GOM's National Sugar Policy. However, there are some analysts who believe that the government should now close some inefficient sugar mills instead of selling them.

Second, according to industry analysts, the government needs to accelerate the implementation of the measures contained in its National Sugar Policy in order to expedite and improve the reorganization of the sugar industry. One such measure includes the medium-term goal of redefining the legal framework regulating relations between mill workers and mill owners, and the system of payment for sugarcane ("*contrato ley*" and "*decreto cañero*").

Planted sugarcane area for MY 2003/04 is forecast to be similar to MY 2002/03 area. Industry financial problems and low international sugar prices do not allow for an increase in area planted. Virtually all sugarcane goes to the production of centrifugal sugar. The sugarcane harvest occurs between December and May. Cane yields for MY 2003/04 are forecast to be almost 73 MT/Ha, due to expected good weather conditions and more efficient production techniques. Sugar yields have been increasing, due to improvements in harvesting and milling techniques. Sugarcane costs of production vary according to the region, ranging from 10,000 to 12,000 pesos/ha. (US\$909 to \$1,090/ha.).

Sugar production for MY 2002/03 has been revised upward from the original MY 2002/03 forecast to 5.1 MMT, based on recent industry information. Although the industry is expecting output to be good, drier weather conditions and a delayed harvest, could result in a delay in actual sugar processing; consequently, MY 2002/03 sugar production is expected to be lower than that of MY 2001/2002. Some mills have indicated that sugar production estimates might be not realized, due to lack of field fertilization and inadequate maintenance of certain mills. Planted and harvested sugarcane area for MY 2002/03 remains unchanged. The industry has tried to maintain the current area planted for sugarcane. Mill yields and recovery rates for MY 2002/2003 are expected to be slightly under the mill yield of 11.36 percent of MY 2001/02.

MY 2001/02 production was revised upward based on official data. Planted sugarcane area for MY 2001/02 remains unchanged, and harvested area was updated, based on final information.

HFCS PRODUCTION

High fructose corn syrup (HFCS) production for CY 2002 was reduced substantially compared to CY 2001 production. According to industry information, HFCS production was about 100,000 MT for CY 2002. The main reason for this production decrease is due to the effect of the imposition of the 20 percent duty imposed on HFCS-containing soft drinks and beverages. As a result, all bottling companies in Mexico that were using HFCS in their products switched to using cane sugar in their product formulas. Given this, and the assumption that no resolution is reached in the U.S./Mexico sweetener dispute, CY 2003 HFCS production is estimated at 100,000 MT, the same as in CY 2002.

On January 28, 2003, one of the two largest companies producing HFCS in Mexico notified the Government of Mexico (GOM) of its intent to seek compensation under NAFTA investment provisions. The company indicated that the tax on HFCS-containing beverages has harmed investment in the industry and discriminates by taxing only U.S. companies, which are the only companies producing HFCS in Mexico.

Much of the corn used for HFCS production was imported from the United States under the NAFTA tariff rate quota (TRQ). Since no HFCS is being used by the soft drink industry, corn imports under the TRQ destined for HFCS production for CY 2003 are also expected to decrease. Mexican production of HFCS is not published by official sources and companies treat it as confidential information.

SUGAR AND HFCS CONSUMPTION

Sugar for human domestic consumption for MY 2003/04 is forecast to increase to 4.99 MMT. According to the industry, sugar prices are expected to increase and consumption therefore to grow at a slower pace. The soft drink industry forecasts MY 2003/04 sugar consumption at about 1.8 to 1.9 MMT, slightly above that of MY 2002/03. This estimate is based on the assumption that there continues to be no resolution to the U.S./Mexico sweetener dispute and the 20 percent duty on HFCS-containing beverages remains in place.

Sugar for human domestic consumption for MY 2002/03 is estimated at 4.93 MMT. This represents an increase of 1.4 percent over MY 2001/02 sugar consumption and is due to increased usage of sugar over HFCS by the soft drink industry because of the 20-percent tax on HFCS use in beverages. Industry sources estimate MY 2002/03 sugar consumption for the soft drink industry to be about 1.7 to 1.8 MMT. Sugar for domestic consumption for MY 2001/02 was revised to 4.86 MMT, based on final official data.

According to the industry, HFCS consumption for CY 2002 was about 125,000 MT, a figure lower than previously expected. In CY 2002, the soft drink industry canceled all HFCS purchases due to the 20 percent tax mentioned above, leaving the bakery, food processing, fruit and juice canning, and yogurt industries as the only industries continuing to use HFCS. At this point, it is uncertain what the domestic consumption for HFCS will be for CY 2003, as this will depend on the outcome of the U.S./Mexico sweetener dispute. However, assuming there is no demand from the soft drink industry, HFCS consumption is estimated to be similar to or less than the CY 2002 consumption figure of 125,000 MT. According to industry information, total domestic HFCS consumption for CY 2001 was about 600,000 MT – an indication of what the level of HFCS consumption in Mexico would be if the 20-percent duty on HFCS-containing beverages were lifted.

SUGAR TRADE

The forecast for MY 2003/04 sugar exports is 80,000 MT, due to increased exports under the Mexican re-export program (PITEX), which are now accounted for under the new "Other Disappearance" category. The PITEX program allows domestically-produced sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar at about the world price. The food manufacturers must process the sugar within three months of the date of purchase and then must export the final processed product. Given this process, the GOM classifies the sugar sold under the PITEX program as exports. The underlying rationale behind the PITEX program is to allow Mexican sugar mills to fulfill their export quota while at the same time maintaining some flexibility with regard to domestic sugar supplies by avoiding the situation which would result from selling raw sugar on the world market and then importing it back, should there be an unexpected domestic shortage. Also, sugar mills and processors avoid transportation expenses. Sources indicate that approximately 180,000 to 250,000 MT of sugar are exported under the PITEX program. According to sources, PITEX exports for MY 2003/04 could be as low as 138,000 MT because of lower sugar inventories. This data is shown under the "Other Disappearance" category, which is sugar manufactured into a food expressly for export. This forecast, however, will be dependent on final sugar production figures, the outcome of U.S.-Mexico sweetener negotiations, and substitution by alternative domestic and imported sweeteners.

The total sugar export estimate for MY 2002/03 was revised downward from the earlier MY 2002/03 estimate to 100,000 MT, due to increased usage of the PITEX program. The MY 2002/03 PITEX export estimate is expected to be around 265,000 MT, to lower inventories, and is shown under the "Other Disappearance" category. Like the MY 2003/04 forecast, however, it will be dependent on final sugar production figures, the outcome of U.S.-Mexico sweetener negotiations, and substitution by alternative domestic and imported sweeteners. Total sugar exports for MY 2001/02 were revised slightly upward from previous estimates based on official trade data. The Mexican industry has been exporting excess sugar to the world market on a per mill-quota basis to prevent downturns in domestic sugar prices. According to industry, PITEX exports for MY 2001/02 were about 180,000 MT and are shown under the "Other Disappearance" category.

Total sugar imports for MY 2002/03 and 2003/04 are expected to decrease compared to MY 2001/02 imports, given the current high levels of sugar production. Total imports for MY 2001/02 were revised downward based on final official data.

The United States and the Mexican governments are continuing negotiations on the final amount of duty-free sugar to be shipped to the U.S. However, as of the writing of this report, the NAFTA sugar allocation for U.S. fiscal year (FY) 2003 has not been announced; the WTO sugar allocation for FY 2003 was set at 7, 258 MT. The FY 2002 sugar quota for Mexico was 148,000 MT. The Mexican negotiating position has been "one kilogram of sugar for one of HFCS", meaning that whatever duty-free sugar is allowed in the U.S., the same amount of U.S. HFCS will be allowed into Mexico.

In its announcement of its National Sugar Policy (see report MX 2031), the GOM outlined a series of short- and medium- term measures to restructure the sugar industry. One of the short-term measures is the establishment of a sugar export cooperative association comprised of all privately-held and government-owned sugar mills. This cooperative institution is now up and running and will be in charge of overseeing exports for MY 2002/03. The cooperative is made up of 57 percent private sector and 43 percent government. This association will be the sole entity authorized to export sugar.

HFCS TRADE

Due to the imposition of the 20-percent duty on HFCS-containing soft drinks and beverages and given the assumption that it will remain in place, HFCS imports for CY 2003 are forecast at approximately 25,000 MT. HFCS imports for CY 2002 were 24,800 MT of commercial basis according to official data. Additionally, as a result of an April 2002 announcement by the Secretariat of Economy (SE), CY 2002 imports were subject to a 1.5 percent duty and a TRQ of 148,000 MT -- an amount equal to Mexico's FY 2001/02 U.S. sugar quota. The out-of-quota amount for CY 2002 was set at 210 percent duty (see MX 2059). It is uncertain what the prospects will be for HFCS trade in CY 2003 since, as of the writing of this report, the Secretariat of Economy is determining the amount of the CY 2003 HFCS quota as well as how the import permit system for U.S. HFCS imports will function.

STOCKS

Due to an increase in usage of sugar by the soft drink bottling industry, MY 2003/04 ending sugar stocks are forecast at 1.10 MMT – a level approximating the three month reserve stock industry experts advise maintaining. Sugar stocks for MY 2002/03 were revised upward, due to lower sugar exports; industry experts also consider that level to be adequate with what should be on reserve. Stocks for MY 2001/02 were revised downward based on more recent information on beginning stocks and exports.

SECTION II STATISTICAL TABLES

CENTRIFUGAL SUGAR TABLE

PSD Table						
Country	Mexico					
Commodity	Centrifugal Sugar		(1000 MT)			
	Revised 2002		Preliminary 2003		Forecast 2004	
	Old	New	Old	New	Old	New
Market Year Begin	10/2001		10/2002		10/2003	
Beginning Stocks	1548	1456	1300	1216	0	1102
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	5166	5169	4999	5146	0	5188
TOTAL Sugar Production	5166	5169	4999	5146	0	5188
Raw Imports	4	4	4	4	0	4
Refined Imp.(Raw Val)	50	48	45	35	0	30
TOTAL Imports	54	52	49	39	0	34
TOTAL SUPPLY	6768	6677	6348	6401	0	6324
Raw Exports	85	101	80	30	0	20
Refined Exp.(Raw Val)	318	312	100	70	0	60
TOTAL EXPORTS	403	413	180	100	0	80
Human Dom. Consumption	2371	4868	2405	4934	0	4997
Other Disappearance	2694	180	2917	265	0	138
Total Disappearance	5065	5048	5322	5199	0	5135
Ending Stocks	1300	1216	846	1102	0	1109
TOTAL DISTRIBUTION	6768	6677	6348	6401	0	6324

SUGARCANE FOR CENTRIFUGAL SUGAR

PSD Table						
Country	Mexico					
Commodity	Sugar Cane for Centrifugal			(1000 HA) (1000		
	Revised		Preliminary		Forecast	
	Old	New	Old	New	Old	New
Market Year	11/2001		11/2002		11/2003	
Area Planted	700	700	700	700	0	700
Area Harvested	609	607	605	605	0	609
Production	42904	42904	41600	41600	0	43000
TOTAL SUPPLY	42904	42904	41600	41600	0	43000
Utilization for	42904	42904	41600	41600	0	43000
Utilizatn for	0	0	0	0	0	0
TOTAL	42904	42904	41600	41600	0	43000

MATRIXES

SUGAR		H.S. 1701	UNITS: METRIC TONS	
EXPORTS FOR 2002* TO:			IMPORTS FOR 2002* FROM:	
U.S.		129,013	U.S.	41,790
OTHER			OTHER	
UNITED KINGDOM		261,401	GUATEMALA	6,881
TOTAL OF OTHER		261,401	TOTAL OF OTHER	6,881
OTHERS NOT LISTED		508	OTHERS NOT LISTED	148
GRAND TOTAL		390,922	GRAND TOTAL	48,819

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, November 2002.

* As of November 2002.

NOTE: EXPRESSED VALUES FOR H.S. 1701 CONSOLIDATES THE FOLLOWING SUBHEADINGS:

**1701.11.01 1701.11.02 1701.11.03 1701.11.99 1701.12.01 1701.12.99 1701.91.00
1701.91.01 1701.99.01 1701.99.02 1701.99.03 & 1701.99.99.**

HFCS		Subheading 1702.40	UNITS: METRIC TONS	
EXPORTS FOR 2002* TO:			IMPORTS FOR 2002* FROM:	
U.S.		12	U.S.	1,639
OTHER			OTHER	
CUBA		148	FRANCE	1
TOTAL OF OTHER		148	TOTAL OF OTHER	1
OTHERS NOT LISTED		43	OTHERS NOT LISTED	1
GRAND TOTAL		203	GRAND TOTAL	1,641

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, November 2002.

* As of November 2002.

NOTE: EXPRESSED VALUES FOR H.S. 1702.40 CONSOLIDATES THE FOLLOWING SUBHEADINGS:

1702.40.00, 1702.40.01 & 1702.40.99.

HFCS Subheading 1702.60		UNITS: METRIC TONS	
EXPORTS FOR 2002* TO:		IMPORTS FOR 2002* FROM:	
U.S.	209	U.S.	23,271
OTHER		OTHER	
GERMANY	658	GERMANY	22
TOTAL OF OTHER	658	TOTAL OF OTHER	22
OTHERS NOT LISTED	156	OTHERS NOT LISTED	0
GRAND TOTAL	1,023	GRAND TOTAL	23,293

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, November 2002.

* As of November 2002.

NOTE: EXPRESSED VALUES FOR H.S. 1702.40 CONSOLIDATES THE FOLLOWING SUBHEADINGS:

1702.60.00, 1702.60.01 & 1702.60.99.

SUGAR PRICES

SUGAR PRICES UNITS: 50 KG. BULK/PESOS						
MONTH	STANDARD		CHANGE %	REFINED		CHANGE %
	2001	2002		2001	2002	
JANUARY	248.89	245.78	(1.25)	276.98	276.80	(0.06)
FEBRUARY	234.25	237.75	1.48	274.56	274.77	0.08
MARCH	208.67	234.98	12.61	266.54	270.04	1.31
APRIL	189.46	233.02	22.99	256.03	267.18	4.35
MAY	185.45	234.61	26.51	250.26	266.94	6.67
JUNE	218.39	232.78	6.59	256.90	274.20	6.73
JULY	222.00	241.68	8.86	260.85	281.03	7.74
AUGUST	219.07	244.15	11.45	261.87	289.64	10.60
SEPTEMBER	249.51	251.02	0.61	276.33	293.64	6.26
OCTOBER	249.34	254.96	2.25	279.72	297.84	6.48
NOVEMBER	240.23	260.28	8.35	277.48	300.89	8.44
DECEMBER	233.55	261.87	12.13	274.21	308.05	12.34

Source: FIDEICOMISO PARA EL MERCADO DE AZUCAR "FORMA" - SAGARPA
 2001 Avg. Exchange Rate US\$1.00=\$9.35 pesos
 2002 Avg. Exchange Rate US\$1.00=\$9.82 pesos

SUGAR TARIFFS

MEXICAN SUGAR IMPORT TARIFFS FOR 2002		
H.T.S. TARIFF # SUBHEADING	NAFTA TARIFFS FOR U.S. COMMODITIES DOLLARS/KG ①	SPECIFIC TARIFF FOR THIRD COUNTRY COMMODITIES DOLLARS/KG
1701.11.01	0.31668	0.39586
1701.11.99	0.31668	0.39586
1701.12.01	0.31668	0.39586
1701.12.99	0.31668	0.39586
1701.91.01	0.31668	0.39586
1701.99.01	0.31668	0.39586
1701.99.99	0.31668	0.39586
1702.90.01	0.31668	0.39586
1806.10.01	0.31668	0.39586
2106.90.05	0.31668	0.39586

Source: Secretariat of Economy

① Note: The sugar importer must have a written statement from the exporter that certifies that the product has not benefited from the U.S. Sugar Re-export Program. If the importer has this statement, then the sugar-containing products covered by these tariff lines will be subject to a tariff that is derived by multiplying the regular "most favored nation" (MFN) tariff in effect at the time of importation by a factor of 0.8. If the importer does not have that written statement, then the merchandise will be subject to the regular MFN tariff without any reduction.